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SUBJECT: IEA Standing Group on Emergency Questions, November 2008

1) SUMMARY: The International Energy Agency (IEA) Standing Group on Emergency Questions (SEQ), the committee charged with maintaining IEA readiness to respond to oil supply emergencies, and the Standing Group on the Oil Market (SOM), the committee charged with oil market monitoring, met at IEA Headquarters in Paris on November 19-20, 2008. The two committees met in joint session on November 19, with the SEQ holding its own meeting on November 20. The joint meeting on the 19th featured presentations by the IEA Secretariat on both the oil and gas markets. The decline in oil prices has been largely driven by the global economic downturn and what that implies for global oil demand. The IEA noted that this was a very unstable time in the oil market, with OPEC adding to uncertainty with its plans to cut output. The joint meeting also featured a presentation by the UK on the upcoming London Energy Meeting. Plans for the London meeting were still a work in progress; the morning session of the one-day meeting to focus on a CERA study on the financial crisis and its impacts on the energy market. The SEQ discussed making public on a monthly basis member countries' days of stocks, as well as other pertinent information about members' stockholding measures. The SEQ also discussed implementing a series of workshops that could delve more deeply into issues that surface in the IEA's Emergency Response Exercises. The SEQ is also playing a role in developing the IEA's policy toward natural gas security. The U.S. delegation included Al Hegburg and Jim Hart of the Department of Energy, and Joel Kopp of the Department of State. End Summary.

JOINT MEETING - OIL AND GAS MARKETS

2) The IEA's conclusions on the state of the oil market are similar to other analysts', in that there has been unexpectedly slow economic growth and the sluggish oil market is based on the expectation that the economic outlook remains grim. IEA assumes China's economic growth will continue to provide some support for oil demand growth. Also of interest: new OPEC oil capacity coming on line in the next 12-18 months may be difficult to stop or slow this late in the development for the various projects. However, IEA would expect to see some "strategic stoppage" or slowing to occur with longer term planned projects if present market conditions continue. On gas, Norway tried to distance themselves from the upcoming Russia "gas OPEC" meeting, saying they would be sending only technical experts rather than political figures, and that their participation rises out of support for consumer-producer dialogues in general rather than out of likemindedness with all the potential gas OPEC participants. But they're still going. Also of note from gas market overview is that gas and electricity markets seem to becoming increasingly linked.

JOINT MEETING - LONDON ENERGY MEETING

3) The UK is staging a follow-up to the Jeddah Energy Meeting in London on December 18-19. The UK envisions a morning session

consisting of a PM Brown welcoming statement and a plenary on financial markets and their impacts on energy markets and energy security, followed by an afternoon breakout session to examine progress made on Jeddah commitments. UK and the Saudis have jointly contracted with CERA to write the paper to be reviewed during the morning session; it will be circulated shortly before actual meeting (about a week ahead of time). The purpose of the session won't be to draw conclusions but to highlight issues. There will be a UK Chair summary of the meeting. UK wants the process to focus on three overall themes: 1) better oil market transparency and data quality, 2) energy efficiency and low emission technologies, and 3) barriers to investment and helping poor and developing countries with access to energy. Germany's delegate pointed out this process should feed into the IEF; UK promised to keep IEF informed. Japan announced that their Energy Forum, which they had envisioned as feeding into this London meeting, had been "postponed" but hoped that the next G8 host would take up this G8 commitment.

SEQ MEETING - MAKING MEMBERS' STOCK INFORMATION PUBLIC

4) This issue had been discussed at the SEQ's September meeting. The Secretariat has continued to modify and improve the public website it will launch which provides member countries' stockholdings and background information on each country's stockholding system. The USG has spoken in favor of making this information public, as it will increase market knowledge of IEA capability, provide answers to many commonly asked questions, clear up some common misunderstandings among the public, and may provide additional incentive for countries to meet their 90-day obligation, as any failure to do so will be publicly documented on the website. Several members spoke in favor of the Secretariat continuing with its work on making the stocks data public.

SEQ MEETING - FUTURE EXERCISES AND WORKSHOPS

5) The Secretariat plans to continue with its biennial large-scale emergency response exercises in roughly the same format as the June 2008 Emergency Response Exercise 4, which was roundly praised, believing that this provides an excellent training tool and refresher for member country representatives, as well as an excellent outreach tool for non-member countries. While there are other specific issues that also could be discussed during such exercises, the Secretariat believes that these could be better dealt with using smaller workshops with more limited attendance, likely adjacent to future SEQ meetings. Several members, including the USG, endorsed this approach. The first such workshop will be in response to a Governing Board directive to study the way stocks are released to the market during an IEA-coordinated draw-down. Practices, policies, and capabilities vary between members, and it will be useful to examine how such releases occur, what type of crude or product is released, when, and where (among other issues). This workshop may occur adjacent to the June 2009 SEQ meeting.

SEQ MEETING - EMERGENCY POLICY FOR NATURAL GAS

6) The SEQ and Secretariat, responding to a directive from the last meeting of IEA Ministers, continues to develop a framework paper on emergency policy for natural gas. Main options at this point seem to be enhancing market conditions to minimize the likelihood of significant market disruption, and individual countries developing a response system for disruptions based on their own needs and circumstances. Stockpiling natural gas, for the record, is complicated and costly (much more so than crude oil). The SEQ supported the work represented in the Secretariat paper, which will be presented to the SLT and Governing Board in December, then finalized in time for presentation at the October 2009 Ministerial.

Comment: it is becoming increasingly clear that individual countries, including the USG, will have to decide what the IEA's role in gas security will be, and since gas is closely related to electricity, this more or less includes some aspect of electricity security as well. Neither of these are mentioned or even contemplated in the IEP.

SEQ - OTHER BUSINESS

7) All members of the IEA are currently meeting their 90-day stockholding obligation, something that does not happen very often, so this meeting did not feature the ritual castigation of members below the 90-day requirement. The IEA has done a final evaluation of an emergency data questionnaire that was used in the in-capitals phase of ERE4, deeming it a success. The questionnaire will continue to be used in the event of supply emergencies and will be tested in future exercises. The IEA is planning to hold an Emergency Response Exercise with Thailand, tentative date being May 2009. The next meeting of the SEQ will be 24-26 March 2009.

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